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SUBJECT: CODEL ROS-LEHTINEN (OCTOBER 5-6)

REF: STATE 99027

¶1. (SBU) Summary. Embassy welcomes the October 5-6 visit of Codel Ros-Lehtinen to Honduras. Honduras, a close ally of the United States, is currently in the throes of a severe political crisis. Honduran society is severely polarized and reconciliation of the Honduran people will be essential for the country to move forward. End Summary.

¶2. (U) There are approximately 15,000 Americans resident in Honduras who are registered with the Embassy. The Embassy estimates that there are an additional 10,000 unregistered resident Americans. About 50,000 Americans visit Honduras annually. The Peace Corps has been active in Honduras since 1963 and its program is currently one of the largest in the world. In 2009, there are 180 Peace Corps Volunteers in Honduras working in six types of projects, including: municipal development, water and sanitation, protected areas management, youth development, and health. Embassy staff includes 108 direct-hire Americans, 243 locally engaged staff (LES) and 94 American dependents. The Management Section has a staff of 12 direct-hire Americans, 7 eligible family members, and 112 LES.

Political Backdrop

¶3. (U) Jose Manuel "Mel" Zelaya Rosales of the Liberal Party won the November 27, 2005 presidential election with less than a four percent margin of victory, the smallest in Honduran history. The Liberal Party won 62 of the 128 congressional seats, just short of an absolute majority. Zelaya's presidency was marked by a series of controversies as his policies and rhetoric moved closer in line with that of Venezuelan President Hugo Chavez. Zelaya signed onto the Bolivarian Alternative for the Americas (ALBA) in August 2008 and it was ratified by the Congress in October 2008, with the support of then congress President Roberto Micheletti. In the final year of Zelaya's term, he began advocating that a referendum regarding reform of the Constitution be added to the elections scheduled for November 2009. When the Supreme Electoral Tribunal ruled the referendum unconstitutional, Zelaya proposed that an informal poll be held on June 28 to gauge public support for his proposal. On June 25, the Supreme Court ruled that the poll was also unconstitutional and issued a cease and desist order on any public support to carry out the poll.

¶4. (U) When Zelaya ignored the Supreme Court ruling and continued with plans to carry out the June 28 poll, the Supreme Court issued a secret arrest warrant for Zelaya. Soldiers entered Zelaya's residence on June 28, placed him on a plane, and took him to Costa Rica. The National Congress met in an emergency session on June 28, declared Zelaya was no longer president, and swore in President of Congress

Roberto Micheletti as the new President of the Republic.

15. (U) The forcible removal of President Zelaya was universally condemned by the international community as a coup d'etat. Both the United Nations and the Organization of American States (OAS) called for President Zelaya's immediate and unconditional restoration to office. The OAS Special Assembly on July 5 suspended Honduras. Not a single nation has recognized the de facto regime led by Micheletti. With support from the United States, the OAS designated Nobel Peace Prize Laureate and Costa Rican President Oscar Arias to serve as mediator to reach a peaceful, diplomatic resolution to the crisis. The San Jose Accord, a twelve-point plan for restoration of constitutional order in Honduras, was drafted in the negotiations led by President Arias. The proposed Accord calls for Zelaya's restoration, a consensus-based unity government, establishment of reconciliation and verification committees, and amnesty for political crimes for both parties.

16. (SBU) President Zelaya unexpectedly returned to Tegucigalpa on September 21 and has been inside the Embassy of Brazil with his wife and son since his arrival in the capital. His return was announced by pro-Zelaya media on September 21 and a medium sized crowd of his supporters (1,000 - 5,000) gathered outside the Brazilian Embassy and some made their way into the embassy and have remained inside the diplomatic mission since then. On September 22, security forces used tear gas to forcibly move the demonstrators who were camped outside the embassy. The de facto regime cut water and electricity to the embassy for a time and imposed all day curfews on September 22 and 23 and evening curfews on September 24-29. De facto regime minister Carlos Lopez Contreras read a statement in English on television the evening of September 22. The statement said de facto regime leader Roberto Micheletti was ready to engage in a discussion with President Zelaya to find a resolution to the country's political crisis. He added, however, that the discussion must be within the framework of the Honduran Constitution and that Zelaya must pledge to respect the general elections scheduled for November 29.

17. (U) The two major parties are the slightly left-of-center Liberal Party and the slightly-right-of center National Party. The three much smaller registered parties, the Christian Democratic Party, the Social Democratic Innovation and Unity Party (PINU), and the Democratic Unification Party, hold a few seats each in Congress, but have never come close to winning the presidency. General elections are scheduled to be held on November 29. The United States and other governments have questioned whether they will be able to accept the results of the government given the undemocratic nature of the government in power. The September 27 suspension of civil liberties currently planned to last until two weeks before the election, further brought into doubt the viability of the elections. Besides the position of president of the nation, 128 congressional seats and 298 mayoralities will be filled.

Economic Overview -----

18. (U) Honduras, with a per capita GDP of USD 1,845 in 2008, is one of the poorest countries in the Western Hemisphere. An estimated 59 percent of Honduran households live in poverty and 36 percent of the labor force was unemployed or underemployed in 2008. The average adult Honduran has only a sixth-grade education. GDP grew more than 6 percent a year 2004-2007 but slowed to about 4 percent in 2008. GDP growth estimates for 2009 range from negative 2 percent to negative 4.4 percent. Inflation surpassed 10 percent in 2008, but began decelerating late in the year with the fall in oil prices and consumption. Current year-over-year inflation stands at 3.1 percent.

19. (U) Because of a strong commercial relationship with the U.S., Honduras has been feeling the effects of the recession, especially in the export-oriented maquila sector, where

orders are estimated to be down about 40 percent and where about 30,000 have been laid off since August 2008 out of a pre-crisis workforce of about 145,000. Commercial bank balance sheets remain healthy, but banks are being extremely conservative about lending, so businesses are credit-constrained. As of the end of August, Honduras had USD 2,109.6 million of Net International Reserves (NIR), down 14.2 percent from December 2008. Data indicates that the de facto regime will likely have sufficient Foreign Exchange reserves to meet their Foreign Exchange requirements, including financing trade, until mid-January, despite maintaining a fixed exchange rate policy.

¶10. (U) The Central American-Dominican Republic Free Trade Agreement (CAFTA-DR) entered into force for Honduras on April 1, 2006. Two-way trade with Honduras in 2008 was USD 8.8 billion, up 6 percent from 8.37 billion in 2007. Exports of non-traditional goods such as apparel and automobile parts now surpass traditional exports like coffee and bananas. From 2005 to 2008, the inflow of Foreign Direct Investment to Honduras increased from USD 600 million to more than USD 1 billion and trade between Honduras and the U.S. increased from 7 billion to 8.9 billion. Honduran imports from the U.S. have grown much faster under CAFTA than Honduran exports to the U.S. With the economic downturn, exports were down almost 14 percent in the first half of 2009, while imports showed even greater declines, as evidenced in press reports noting that customs collections were down 39.8 percent. Meanwhile, during the first quarter of 2009, Foreign Direct Investment (FDI) was down 17 percent relative to the same period in 2008.

¶11. (U) Roughly 200 U.S. companies operate in Honduras, and the U.S. is the largest principal investor, contributing almost 60 percent of total FDI. However, increased foreign direct investment is hindered by public insecurity, weak judicial protections of investor rights, corruption and, most recently, the political crisis. There are approximately 15,000 U.S. citizens living in Honduras, many of whom work at U.S. owned companies or own businesses themselves. Remittance inflows from Honduras living abroad, particularly in the U.S., are the largest source of foreign exchange, reaching USD 2.71 billion in 2008. The total flow is equivalent to about one-fifth of GDP and is 13.1 percent lower in 2009 over 2008, primarily because of the economic recession.

¶12. (U) The global recession, which hit exports and remittances especially hard, placed downward pressure on the Honduran economy. The June 28 coup and the ensuing political crisis, with its aftermath of rolling curfews and political unrest, exacerbated the effects of the global economic crisis. Business associations report that uncertainty about the political future of Honduras is hindering both international and domestic investment. Tourism and hospitality, the third largest revenue source in Honduras, is significantly down since June 28.

Bilateral Assistance

¶13. (U) The United States has historically been the largest bilateral donor to Honduras. Over the years, U.S. foreign assistance has helped advance such objectives as fostering democratic institutions, increasing private sector employment and income, helping Honduras manage its arrears with international financial institutions, providing humanitarian aid, increasing agricultural production, and providing loans to microbusiness. The Department of State on September 3 announced the termination of a broad range of assistance to the government of Honduras as a result of the coup d'etat that took place on June 28.

Military to Military Relations

¶14. (U) The U.S. and Honduran militaries worked together for many years until the June 28 coup when assistance was

suspended and subsequently terminated on September 3. Joint Task Force-Bravo, located at Enrique Soto Cano Air Base in Comayagua is comprised of approximately 1,200 assigned personnel, of whom about 575 are military while the remainder includes both locally engaged staff (LES) and civilian contractors who provide base support, communications services and helicopter maintenance. JTF-Bravo forces maintain and operate an all-weather C-5 capable airfield and provide the U.S. with an agile response capability in Central America. Recent humanitarian assistance/disaster relief operations include flooding relief in Honduras, Costa Rica and Panama in November 2008, earthquake relief in Costa Rica in January 2009, and search and rescue operations for American citizens missing off the coast of Honduras. Military cooperation with Honduras has been suspended since the June 28 coup d'etat. Since the coup, JTF-Bravo operations have been suspended.

Crime and Security

¶15. (SBU) Honduras is a critical threat post for crime, the highest level possible within the Department of State. Widespread poverty and unemployment, along with significant gang and narco-trafficking activities have all contributed to the incredibly high crime rate. An undermanned, poorly trained and poorly equipped police force, easily susceptible to corruption, can do little to deter criminal activity. The weak judicial system and lack of will to enforce existing laws for fear of reprisal allows criminals to act with near impunity. Kidnappings have been on the rise in recent years with large ransom demands being paid out and only a fraction of the kidnappers being caught by the Honduran police. The recent political crisis has only added to the already poor security situation. While the majority of pro-Zelaya demonstrations have been peaceful, a number of them have turned violent and clashes have occurred between security forces and demonstrators resulting in several dead and wounded.

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